



THE UNIVERSITY *of* EDINBURGH

## Edinburgh Research Explorer

### Conceptualising Financial Socialization

**Citation for published version:**

Harrison, T, Marchant, C & Ho, M 2014, Conceptualising Financial Socialization. in *Child and Teen Consumption 2014*. Child and Teen Consumption 2014, Edinburgh, United Kingdom, 9/04/14.

**Link:**

[Link to publication record in Edinburgh Research Explorer](#)

**Document Version:**

Peer reviewed version

**Published In:**

Child and Teen Consumption 2014

**Publisher Rights Statement:**

© Harrison, T., Marchant, C., & Ho, M. (2014). Conceptualising Financial Socialization. In Child and Teen Consumption 2014.

**General rights**

Copyright for the publications made accessible via the Edinburgh Research Explorer is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

**Take down policy**

The University of Edinburgh has made every reasonable effort to ensure that Edinburgh Research Explorer content complies with UK legislation. If you believe that the public display of this file breaches copyright please contact [openaccess@ed.ac.uk](mailto:openaccess@ed.ac.uk) providing details, and we will remove access to the work immediately and investigate your claim.



# **Conceptualizing Financial Socialization**

Tina Harrison  
Caroline Marchant  
Mary Ho  
University of Edinburgh Business School

## **Purpose**

The purpose of the paper is (1) to develop a discussion regarding the processes via which children develop and become financially literate: the process of financial socialization; (2) to propose a conceptual framework for understanding financial socialization among children and young adults.

## **Design/methodology/approach**

The paper is based on a literature review and integration of theories of consumer socialization, economic socialization and social learning theory.

## **Findings**

A key contribution of the paper is the development of a conceptual framework for the analysis of financial socialization that identifies financial socialization as a function of financial socialization agents, financial socialization processes and financial socialization outcomes.

## **Practical implications**

Understanding the relative influence of financial socialization agents and processes on financial literacy can lead to a better understanding of how to develop effective financial education programmes and how best to deliver them.

## **Social implications**

Financial literacy is key to good financial decision-making. Understanding the key agents and processes of financial socialization can help to understand how to improve financial literacy and subsequent decision-making.

## **Originality/value**

The paper proposes a conceptual framework for understanding financial socialization. Few studies have connected socialization theories with financial literacy in relation to children. The findings are of value to academics and practitioners who want to improve the effectiveness of financial literacy among children.

# Conceptualizing Financial Socialization

## Purpose

There has been growing interest in recent years in improving financial literacy. Financial literacy is essential to good financial decision-making and financial well-being, the impact of which is felt individually and at a macro level. An understanding of how individuals develop and acquire the skills of financial literacy and capability must start with an appreciation of how such skills are developed among children. Knowing how children and young adults develop financial values, attitudes and behaviours is important for transition into adulthood (Kim et al, 2011). Poor financial habits acquired at a young age may carry into adulthood and lead to financial problems later in life (Varcoe et al, 2001). The purpose of the paper is (1) to develop a discussion regarding the processes via which children develop and become financially literate: the process of financial socialization; (2) to propose a conceptual framework for understanding financial socialization among children and young adults.

## Method

The paper is based on a literature review and preliminary observation of the financial literacy context in which opportunities for financial socialization for children exist. We explore and discuss the influence of a number of agents of financial socialization and potential interrelationships between them. We propose a conceptual model that integrates consumer socialization (Roedder John, 1999), economic socialization (Lunt & Furnham, 1996) and social learning theory (Bandura, 1986).

Financial socialization derives from economic and consumer socialization which has been defined as “the process by which young people acquire the skills, knowledge, attitudes relevant to their effective functioning as consumers in the marketplace” (Ward, 1974:2). Kim et al (2011) argue that financial socialization is broader than learning how to function effectively in the marketplace. It is the process by which individuals acquire and develop knowledge, beliefs, behaviours and norms that influence their subsequent financial practices (Danes, 1994). The paper discusses a conceptual framework to illustrate the financial socialization agents and processes that contribute towards the development of financial literacy and subsequent financial behaviours.

## Results

We propose a conceptual framework of financial socialization among children and young adults. The model draws on insights from Shim et al's (2009) student financial well-being model - based on an adaptation of the theory of reasoned action- that shows how early financial socialization is related to financial learning which in turn is related to financial attitudes and subsequent behaviour. Our framework proposes that financial literacy and subsequent financial behaviour is influenced by a number of financial socialization agents via socialization processes. Bowen (2002) notes that socialization occurs even before children can speak, yet formal learning is needed for abstract concepts such as interest that are difficult to comprehend through everyday interaction.

### *Financial Socialization Agents*

Ward (1974) was the first to synthesise the three key social agents affecting a child's socialization: family, peer group and mass media. More recently, researchers have added ‘culture’ and institutions (such as school) to the list (Beutler & Dickson, 2008; Gudmunson & Danes, 2011) leading to the most commonly researched agents of financial socialization today being parents, peers, media and culture (Bakir et al, 2006; Mandrik et al, 2005). The family is argued to be the primary socialising agent with the most influence on values, attitudes and practices, often throughout life (Keranne & Hogg, 2010). The importance of intra-family financial socialization is acknowledged as it operates through the provision of financial information networks, grants and exchanges of financial resources and financial role models (Rettig & Mortensen, 1986). Each family member can act as a socialising agent on the other within the culture, values and norms of

the family, and the family can also be important in mediating the effect of other socializing agents (Moschis, 1985). Despite the importance of the family, Gudmunson and Danes (2011) criticise the lack of real intra-family focus in financial socialization. We observe that many studies described as 'family' have tended to focus only on parent-child dyadic interactions rather than how the members of a family interact as a network. Perhaps not surprisingly, the parent is considered the most influential socializing agent, especially among young children, and this has been the focus of much research (Roedder John 1999).

Parents can directly and indirectly affect financial socialization. Allen (2008) notes that parental financial socialization usually comprises modelling consumer behaviour, making rules about children's consumer behaviour and engaging in direct discussions about purchasing decisions, money, credit, encouraging savings and the giving of an allowance. Research has shown the impact of parents as financial socialization agents.

Kim et al (2011) find that parental warmth, parental financial monitoring and parent-child interactions about money explain cognitive and behavioural aspects of adolescents' financial behaviours. Hibbert et al (2004) showed that parents who are more prudent money managers better socialise their children to avoid unnecessary debt, whereas Allen (2008) found that young adults saw money as problematic when they came from a home where parents argued about money. Danes (1994) found that parental influence is affected by the parent's own financial beliefs and importantly at what age they feel their child is ready to know about or participate in certain financial matters. In a study of college students, Jorgensen and Savla (2010) showed that while young adults perceived their parents to have an influence on their financial attitudes and behaviour, they did not perceive they had an influence on financial knowledge.

It has been well established that parental guidance gradually declines as children develop into adolescents and young adults. Also, parental assistance in money management matters changes as the child grows older (Danes, 1994). Adolescents tend to move away from direct family influence and socialise into, or conform to, peer groups (Roedder John, 1999). Peer groups and institutions are more important in influencing development of the older child than dyadic relationships with parents alone (Harris, 1995). There is a lack of research into peer influence in the context of financial socialization.

Berger and Luckman (1966) consider the influence of institutions, like schools, on children to be secondary socialization suggesting that children understand the different realities of the norms of home versus the new realities of institutions. Since the Labour government of 1997-2000 there has been a focus on financial education in the school curriculum. However, Atkinson (2008) notes that there is little evidence that financial education programmes have improved financial capability, but acknowledges that this may be due to the lack of rigorous research rather than the effectiveness of programmes per se. Appleyard and Rowlingson (2013) explored the impact of financial education on children in a small number of primary and secondary schools and concluded that there was limited impact: children had little recall of the discussions in the programme. Brimble and Blue (2013) argue that financial education is not a value-free curriculum and should take account of the social context in which it is delivered. Financial education involves discussion of saving and borrowing that have strong cultural overtones. Research could be conducted to understand to what extent financial education can or should be about developing skills or changing attitudes and values, the extent to which such teaching might conflict with family socialization processes and the extent to which education needs to be relevant to the child's stage of development so as to enable children to have the ability to put skills into action.

### *Financial Socialization Processes*

Financial socialization agents can influence children through a number of socialization processes. Financial learning can be observational or formal, passive or participatory (incidental learning). Evidence suggests that young people learn attitudes and behaviours through observation and imitation of role models that they come into frequent contact with (Bandura, 1986). Formal learning typically is delivered via the education system, school or work, although parents can also impact children's socialization via purposive overt teaching, modelling and practice.

### *Financial Socialization Outcomes*

Two key outcomes of financial socialization are financial literacy and financial behaviour. The terms financial literacy, financial knowledge, financial education and financial capability are often used interchangeably in the literature. Danes and Haberman (2007: 49) define financial literacy as “the ability to interpret, communicate, compute, develop independent judgments, and take actions resulting from those processes in order to thrive in our complex world”. Huston (2010) defines financial literacy as comprising a knowledge dimension (referring to the stock of knowledge acquired through education and/or experience) and an application dimension (referring to the ability and confidence to effectively apply and use the knowledge).

Investigations to establish a causal relationship between financial literacy and a change in financial behaviour have been explored but have not been fully established (West, 2012). Critics have argued that there has been too much emphasis on cognitive financial literacy and not enough attention to social and cultural aspects (Brimble & Blue, 2013). Despite the recognised importance of developing financial literacy at a young age, most studies into financial literacy have been conducted among adults. With the exception of a few studies (e.g. Royal Bank of Scotland, 2011), Appleyard and Rowlingson (2013) note that there is limited literature on children and money. There is a need to explore the goals of financial literacy for children and how these change as children develop through adolescence and into young adulthood, as well as the impact of a variety of agents and processes in the development of financial literacy.

Danes (1994) notes that financial socialization involves five major concept areas (that also relate to financial behaviours): earning, spending, saving, borrowing and sharing. She argues that socialization concepts have focused mostly on concepts related to purchases and marketplace interactions rather than on social learning about non-consumption activities such as saving.

### **Discussion**

Given the relative lack of research in this area, this paper seeks to contribute to our theoretical understanding of financial socialization. We propose a conceptual framework to initiate discussion on how children develop and become financially literate. Much is known about consumer socialization and the general socialization of children. There is also a developing body of literature on financial literacy. Yet, few studies have connected socialization theories with financial literacy in relation to children. Appleyard and Rowlingson (2013:510) note that there is very little research in the field “particularly research involving the direct participation of children”. Research is needed to understand the interaction between socialization agents, socialization processes and socialization outcomes. Moreover, research is needed to understand the relative influence of different socialization agents on children of different ages, specifically as they develop from young children through adolescence and into young adulthood. Life-course investigations are rare in the personal finance literature (Gudmunson & Danes, 2011): childhood is a key stage of the life-course.

### **References**

- Allen M W (2008). Consumer finance and parent-child communication. In J J Xiao (Ed), Handbook of Consumer Finance Research, pp.351-361. New York: Springer.
- Appleyard L & Rowlingson K (2013). Children and financial education: challenges for developing financial capability in the classroom. Social Policy and Society, 12, 507-520.
- Atkinson A (2008). Evidence of impact: an overview of financial education evaluations prepared for the Financial Services Authority. Personal Finance Research Centre, Bristol University.
- Bakir A, Rose G M & Shoham A (2006). Family communication patterns: mothers' and fathers' communication style and children's perceived influence in family decision-making. Journal of International Consumer Marketing, 19 (2), 75-99.
- Bandura A (1986). Social Foundations of Thoughts and Actions: A Social Cognitive Theory. Englewood Cliffs: Prentice Hall.
- Beutler I & Dickson L (2008). Consumer economic socialization. In J J Xiao (Ed), Handbook of Consumer Finance Research, pp.83-102. New York: Springer.

- Bowen C F (2002). Financial knowledge of teens and their parents. Financial Counseling and Planning, 13, 93–102.
- Brimble M & Blue L (2013). Tailored financial literacy education: an indigenous perspective. Journal of Financial Services Marketing, 18 (3), 207-219.
- Danes S M (1994). Parental perceptions of children's financial socialization. Financial Counseling and Planning, 5, 127-149.
- Danes S M & Haberman H R (2007). Teen financial knowledge, self-efficacy, and behavior: A gendered view. Financial Counseling and Planning, 18, 48–60.
- Glass J, Bengtson V & Dunham C (1986). Attitude similarity in three-generation families: socialization, status inheritance or reciprocal influence. American Sociological Review, 51 (5), 685-698.
- Gudmunson C & Danes S (2011). Family financial socialization: Theory and Critical Review. Family Economic Issues 32, 644-667.
- Harris J (1995). Where is the child's environment? A group socialization theory of development. Psychological Review, 102 (3), 458-698.
- Hibbert J R, Beutler, I F & Martin T M (2004). Financial prudence and next generation financial strain. Journal of Financial Counseling and Planning, 15, 9-16.
- Huston S J (2010). Measuring financial literacy. The Journal of Consumer Affairs, 44 (2), 296-316.
- Jorgensen B L & Savla J (2010). Financial literacy of young adults: The importance of parental socialization. Family Relations, 59, 465–478.
- Kerrane B and Hogg M (2012). Shared or non-shared? Children's different consumer socialization experiences within the family. European Journal of Marketing, 47(3), 506-524.
- Kim J, LaTaillade J & Kim H (2011). Family processes and adolescents' financial behaviours. Journal of Family Economic Issues, 32, 668-697.
- Lunt P & Furnham A (1996). Economic socialization: the economic beliefs and behaviours of young people. Cheltenham; Edward Elgar
- Mandrik C A, Fern E F & Bao Y (2005). Intergenerational influence: roles of conformity to peers and communication effectiveness. Psychology & Marketing, 22(10), 813-832.
- Moschis G (1985). Role of family communication in consumer socialization of children and adolescents, Journal of Consumer Research, 11(4), 898-913.
- Moschis G & Moore R (1979). Decision making among the young: A socialization perspective, Journal of Consumer Research, 6 (September), 101-112.
- Rettig K D & Mortensen M (1986). Household production of financial management competencies. In R Deacon & W Huffman (Eds) Human Resources Research 1887-1987, pp.137-145. Ames: Iowa State University.
- Roedder John D (1999). Consumer Socialization of children: A retrospective look at twenty-five years of research. Journal of Consumer Research, 26 (3), 182-213
- Royal Bank of Scotland (2011), MoneySense panel report 2011, <http://www.rbs.com/content/dam/rbs/Documents/Sustainability/RBS-MoneySense-Research-Panel-2011-Report.pdf> [Accessed 30th September 2013]
- Shim S, Xiao J J, Barber B & Lyons A (2009). Pathways to life success: A conceptual model of financial well-being for young adults. Journal of Applied Developmental Psychology, 30, 708–723.
- Varcoe K P, Peterson S S, Gabertt C, Martin A & Costello C (2001). What teens want to know about financial management? Journal of Family and Consumer Sciences, 93(2), 30-34.
- Ward S (1974). Consumer Socialization, Journal of Consumer Research, 1(1), 1-14.
- West J (2012). Financial literacy education and behaviour unhinged: combating bias and poor product design. International Journal of Consumer Studies, 36(5), 523-530.